FACTs Update • Kid Power • The Law • Mexico

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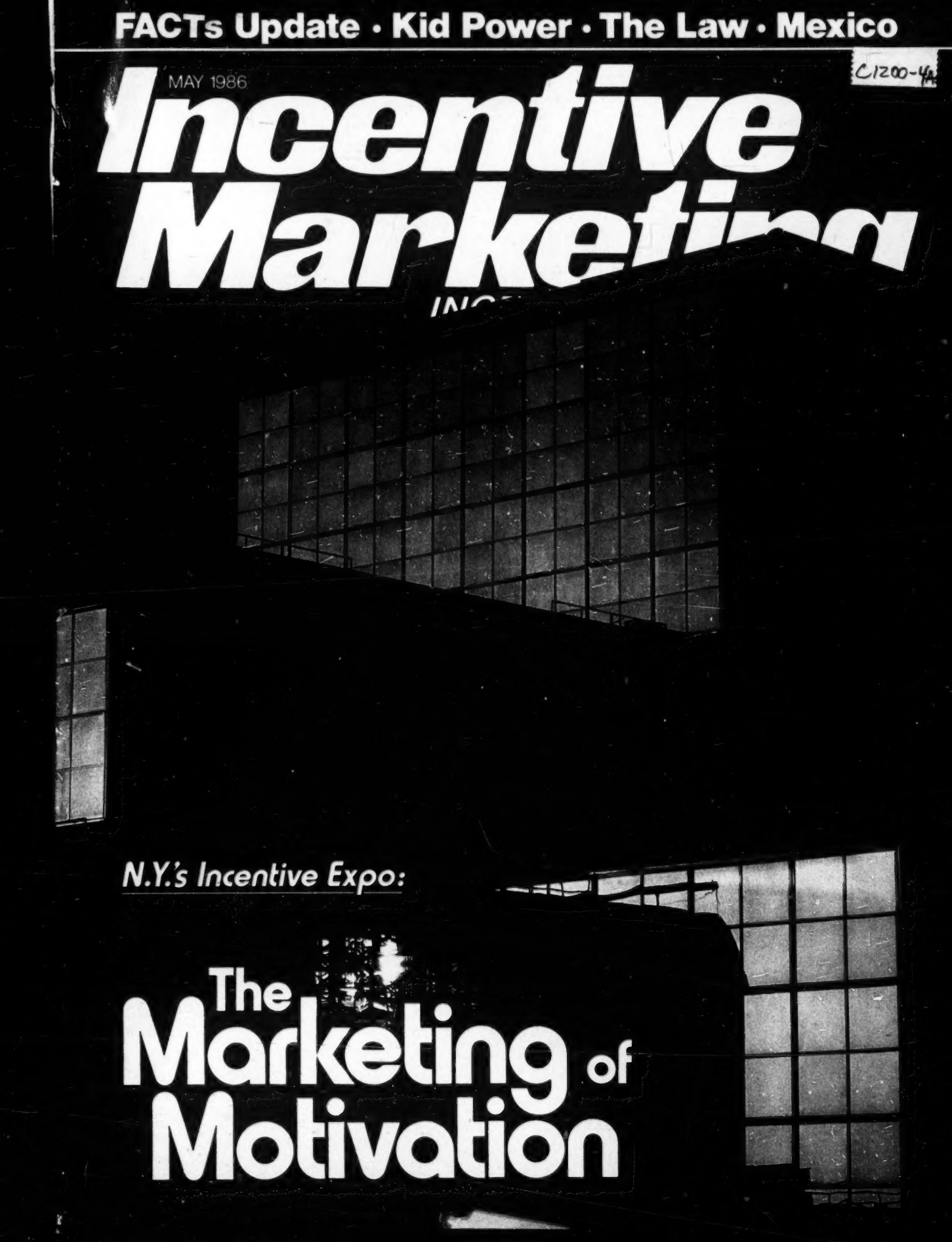
MAY 1986

# Incentive Marketing



*N.Y.'s Incentive Expo:*

## The Marketing of Motivation

PRODUCT FOCUS: The Art of Imprinting, p. 82

# May 1986

82nd Year, Vol. 160
Number 5, ISSN-00119-3364

*Cover: N.Y.'s Jacob K. Javits Convention Center. Photo by Fred Slavin.*

*Spotlight on Great Britain. See page 116.*

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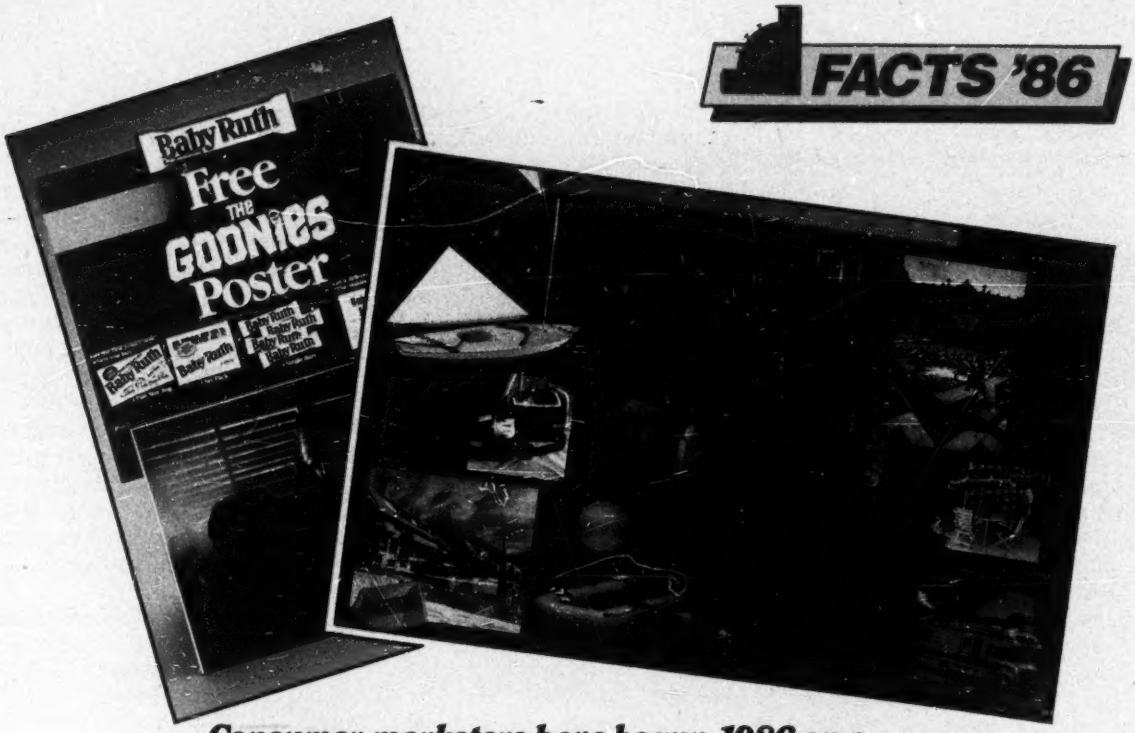
Incentive Marketing (USPS 910-960) is published monthly by Bill Communications Inc., 633 Third Ave., New York, N.Y. 10017. Subscriptions: US/Canada: $32, Foreign: $45, Single Copies: $3, December Facts Issue: $15. Copyright 1985 by Bill Communications Inc., all rights reserved. Postmaster: Send change of address to INCENTIVE MARKETING, Circulation Dept., 633 Third Ave., New York, N.Y. 10017. Second Class postage paid at New York, N.Y. and at additional mailing offices.




***Consumer marketers have begun 1986 on a cautious note, projecting an 8.7 percent gain in promotion outlays.***

# Consumer Promotion

A preliminary FACTS survey reveals that consumer marketers have started out 1986 on the conservative side, estimating that their expenditures for consumer premiums in 1986 will grow about 8.7 percent over 1985 levels.

At this time last year, consumer premium users had become more aggressive, forecasting 15 percent incentive budget increases.

But as 1985's economic realities unfolded, the aggression abated —and product promoters finished the year spending about 8.3 percent more for consumer premiums than they had in 1984. Retailers braked even more, and total consumer spending came to $6.1 billion, up an estimated 7.4 percent.

The 1985 estimates showed the direct premium category (direct premiums, factory packs and coupon plans) leading the field, with 9.1 percent expansion. Mail-in programs lagged at 7.5 percent, and the retail effort was farther behind, gaining only 6.1 percent over the previous year's expenditures.

Direct premiums given free with a purchase increased by about 10.3 percent in 1985, surpassing $900 million in usage. A close second for growth was the sweepstakes and contests category, which gained an estimated 9.4 percent last year. Slowest pace of all was set by self-liquidators, with only 6.6 percent expansion.

Retailers' premium promotion last year edged up only 6.1 percent, despite a healthy 9.8 percent growth in non-stamp promotions, because of a 5.8 percent decline (the first since 1975) in trading stamp usage.

The dominant retail grocery in-

dustry, still using more than $1.25 billion in incentives, added only 2.9 percent to its 1984 budgets; much of the drag of the decline in trading stamps was felt by this principal user, and even fairly strong usage of continuity promotions and tape-redemption plans did not bring much dollar growth overall.

On the manufacturing side of the grocery business, the food products category upped its premium spending only 7.1 percent. Toiletries and cosmetics spent 8.6 percent more, and the makers of detergents and cleansers boosted their outlay for consumer incentives by 9.6 percent. Beer, ale and soft drinks, another strong factor in the grocery field, spent an additional 9.4 percent for premiums last year. These four industries remain among the six largest users of consumer premiums.

Respondents who reported their actual and planned expenditures for 1985 and 1986 told **Incentive Marketing** they expect to increase their dollar outlay for all six types of premiums, with the three mail-in techniques increasing 5.8 percent and the other types slated for a 10.8 percent rise. Among the mail-ins, the sweepstakes and contests category is targeted for an 8.3 percent boost; self-liquidators, 5.6 percent, and free mail-ins, 4.4 percent.

***Retailers appear to have decreased use of promoters' point-of-purchase display materials.***

These preliminary projections are based on the reports of 107 companies.

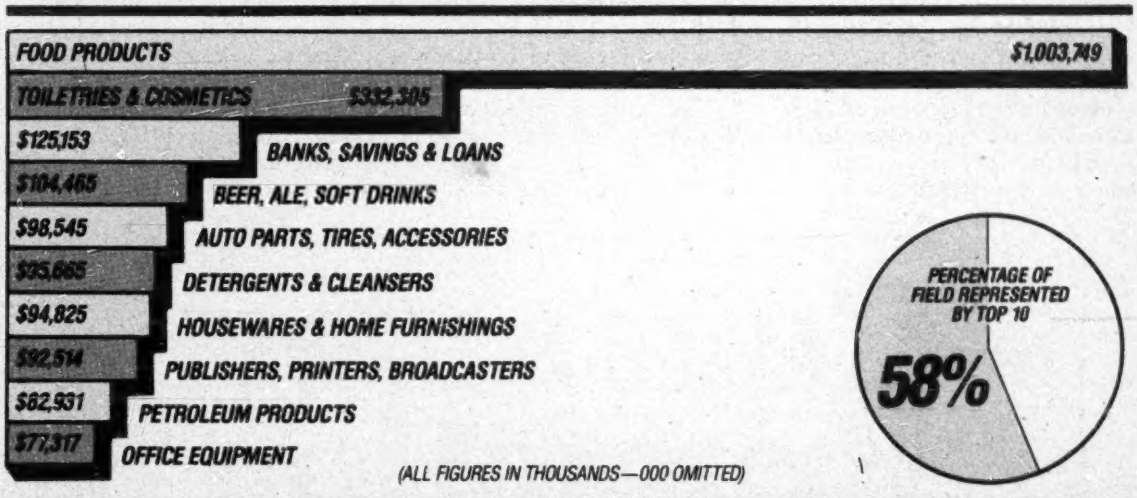
These users are at least moderately bullish about consumer premium promotion, despite some slippage in the effects on their retail sales as compared with results in previous surveys. In the comparable survey a year ago, respondents averaged 20.4 percent in retail sales increases during their premium promotions; the previous year, the figure was 20.8 percent. In the present study, the average has dipped to 18.8 percent. For last year and this year however, the median response was 15 percent.

Two other indicators of effective promotion are somewhat less favorable than they were a year ago. The estimated percentage of retailers using the promoter's display materials (with or without a premium) has slipped just a little, from 58 percent last year to 56 percent now. But the executives' estimate of the increase in display usage attained through a premium offer has dropped significantly from the 1985 average of a 44 percent gain to a 32 percent average seen by this year's respondents.

On the other hand, consumer response to mail-in offers may have improved its record. We say "may" because reports on this measurement are generally sparse. Not all users try to gauge the response on the basis of consumer orders per thousand ad exposures, the way the question is asked. And, when they do, there is some evidence that the ways they count the response are not always comparable.

Nevertheless response to print advertising of self-liquidators seems to have improved consider-

## TOP 10 CONSUMER PREMIUM USERS (1985)



ably this year, although free mail-in offers show a slight decline.

In offers of lower-priced self-liquidators by mail—items priced under $10 to the consumer—users estimate they receive 20 responses per 1,000 print impressions, compared with 10 reported a year ago; both figures are medians in a wide-ranging field. When the liquidator asking price goes over the $10 mark, response drops to 10 per 1,000, this year's survey respondents say; last year's also reported a 50 percent drop, to five per 1,000.

On the free mail-in side, things are slightly less favorable this year, with a median of 12 responses per 1,000 exposures compared with last year's 15 per 1,000 exposures.

***Users estimate that they receive an average of 20 responses per 1,000 pieces mailed in self-liquidating promotions.***

The choice of media to advertise the premium offer does not change greatly from year to year, although there has been a decline in the percentage of firms reporting use of point-of-purchase materials this year. Although there is no conclusive evidence, this might be related to the reported decline in the use of displays by retailers.

Point-of-purchase displays still hold second place among eight media choices listed, but with use by 33 percent this year, as opposed to the previous 46 percent who picked the medium. First place continues to rest with direct-mail advertising, favored by 50 percent, 3 percentage points below last year's score.

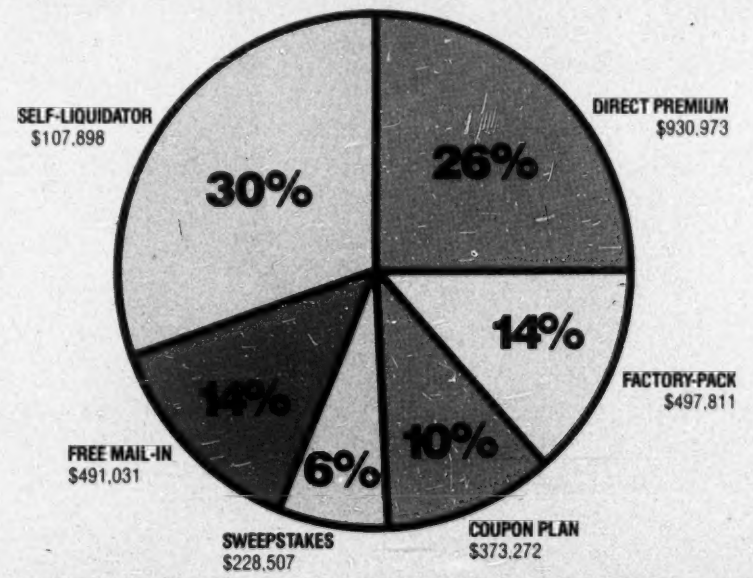
Newspapers hold third position, with 28 percent using them to advertise premium offers. The other listed media fall in behind: television and radio, 16 percent; trade publications, 14 percent; on-package advertising, 13 percent; consumer magazines, 10 percent, and Sunday supplements, 10 percent. And 10 percent say they use other media including outdoor, circulars, trade shows and local ad sheets.

The number of consumer premium offers run each year by the typical user company has dropped. In 1984, users of both mail-in and direct premiums indicated they conducted a median of four promotions a year. In last year's comparable study, the medians were three. In the present survey, the number of direct premium programs per year remains at a median of three (average is 4.7)—but for mail-in promotions the median has dropped to two (average 2.4).

This pullback in the number of self-liquidators, free mail-ins and sweepstakes makes the relatively

## 1985 CONSUMER PREMIUM USAGE

*ESTIMATED EXPENDITURES FOR 6 PRINCIPAL TYPES* *(000 OMITTED)*



small increase in dollar expenditures (5.8 percent) for those types seem more logical and the health of promotions stronger, at least among this limited sample group of marketers. If two promotions a year are substantial enough to take even a little larger budget than three did before, they must be reaching the market effectively.

In the case of self-liquidators, the average price to consumers among this year's reporting executives is $9.53, up from $8.55 a year ago. The median figure is $5.95, compared with $5 a year ago.

The term "self-liquidating" is very often a relative one, not to be interpreted strictly. We asked the executives in the survey what percentage of their costs is actually liquidated by the consumer's payment, and the median report was 85 percent. A year ago, the comparable group recovered more—about 93 percent of the actual cost of the premium.

Postage and handling used to be included in the liquidating price, by definition. But a recent trend has seen more users asking for additional amounts to cover mailing costs. Some 53 percent of respondents say they state postage and handling as a separate charge to the consumer, not included in the advertised price. That figure is up from about 25 percent in 1983, 44 percent a year later and 47 percent last year.

***The numbers of consumer premium offers used each year by companies has shown a decline.***

There seems to be less need for such split pricing, however, if the users' reports last year and now are accepted as evidence of where the self-liquidator price ceiling is going. In 1982, surveyed executives considered that "response drops significantly" above an average of $11.35 liquidating price. By 1984, that had risen to $17.85.

But last year and in the latest survey, that ceiling has about doubled. In 1985, users' estimates averaged $35.14, and this year the figure has risen slightly—with $35.74 as the average point where respondents believe the pull of a liquidator diminishes. Thus, splitting the asking price in two, once seemingly justified to keep the main figure within tight limits, now seems to offer little advantage for that purpose.

A large percentage of free mail-in offers also carry a postage and handling charge, but most appear to be within realistic limits.

On the cost of the free offer to the user, there has been some vacillation in survey reports over a three-year period. Respondents in a 1984 survey indicated, on average, that their cost of the premium equaled 20.5 percent of the retail price of the products with which it was offered. Last year, the same figure dipped to an average of 11.9 percent. The present survey finds that the average cost in relation to product purchase required has risen a bit to 15.9 percent.

## CONSUMER PREMIUMS: WHAT THEY CAN DO

(% OF USERS IN 1986 SURVEY WHO CONSIDER EACH TECHNIQUE MOST EFFECTIVE FOR REACHING EACH GOAL)

| GET SHELF ATTENTION | | SELL-IN TO DEALERS | | BOOST REPEAT SALES | |
|---|---|---|---|---|---|
| THE BEST: | | THE BEST: | | THE BEST: | |
| FACTORY-PACK | 33% | FACTORY-PACK | 26% | COUPON PLAN | 28% |
| DIRECT PREMIUM | 28 | DIRECT PREMIUM | 23 | FREE MAIL-IN | 20 |
| THE WORST: | | THE WORST: | | THE WORST: | |
| COUPON PLAN | 4 | FREE MAIL-IN | 3 | FACTORY-PACK | 11 |
| **SALES TALKING POINT** | | **BUILD USER GOOD WILL** | | **GAIN AD READERSHIP** | |
| THE BEST: | | THE BEST: | | THE BEST: | |
| DIRECT PREMIUM | 48% | DIRECT PREMIUM | 45% | DIRECT PREMIUM | 28% |
| FACTORY-PACK | 16 | SELF-LIQUIDATOR | 18 | SWEEPSTAKES | 20 |
| THE WORST: | | THE WORST: | | THE WORST: | |
| SWEEPSTAKES | 4 | FREE MAIL-IN | 6 | FACTORY-PACK | 8 |
| **OBTAIN STORE DISPLAYS** | | **SAMPLE NEW USERS** | | **COST-EFFECTIVENESS** | |
| THE BEST: | | THE BEST: | | THE BEST: | |
| DIRECT PREMIUM | 30% | DIRECT PREMIUM | 33% | SELF-LIQUIDATOR | 27% |
| SWEEPSTAKES | 25 | COUPON PLAN | 30 | DIRECT PREMIUM | 21 |
| THE WORST: | | THE WORST: | | THE WORST: | |
| COUPON PLAN | 10 | SWEEPSTAKES | 3 | SWEEPSTAKES | 8 |

A similar down-and-up pattern has shown up in the number of proofs of purchase required to qualify for a free mail-in offer. Very large numbers were the rule of several years ago, but by 1984 this had dropped to an average of 2.7. Last year, the surveyed executives reported an average of 1.6 purchase tokens—but the 1986 entries average 2.3 proofs.

Another free variety, the factory-pack premium, has had a different cost history recently. In IM's 1984 survey, users said their on-pack, in-pack or container premiums cost an average of 10.9 percent of the product purchase price. This increased a year ago to 12.5 percent and has risen further to a present average of 15.2 percent.

In planning any kind of premium promotion, the marketer naturally wants to be able to estimate what's going to happen: How will the trade accept the offer, what effect will it have on sales and how many units of the premium will be needed to fulfill the offer without a lot of leftovers? The answer, in theory, is to test the promotion in some manner before launching it full-scale.

Tests don't always show what they are supposed to, but most users believe they are better than seat-of-the-pants decisions. Last year, 52 percent of the surveyed executives said they do conduct item-preference tests of most promotions. The present finding is quite similar: 54 percent test mail-in offers and 53 percent test other premiums.

The survey questionnaire lists eight commonly used test methods, but one is always the standout favorite—personal interviews, favored by 45 percent this year. In second place is mailing a single premium offer to a sample group of consumers—the practice of 28 percent. A mail questionnaire or ballot, which presents several offers rather than a single premium, is preferred by 20 percent in this survey.

Other test techniques come in with much smaller followings: consumer panel, 13 percent; bounce-back offer, 13 percent; store panels, 10 percent; package inserts, 7 percent, and newspaper split run, 2 percent. Other methods, not specified, are used by 7 percent of these marketers. The total exceeds 100 percent, since some users employ more than one test method—almost 1.5 on the average.

The accuracy of tests has slipped a bit this year, as compared with the 1985 survey. Users then said their tests averaged an accuracy of plus or minus 17 percent in forecasting the number of responses to an offer. This year, the similar figure is 22 percent—although the median is 10, indicating that a minority of the users is pessimistic about testing. In any case, 64 percent of respondents say they are satisfied with the accuracy of their tests—better than the 55 percent who were happy in last year's survey.

***The direct premium is hard to beat as an effective means of achieving a host of goals.***

Evaluating results of a consumer premium offer is far from scientific, most users agree. But a comparative evaluation of techniques in relation to particular objectives is not too difficult. And, as in most recent surveys, the judgment of the users is that the direct premium is hard to beat for most marketing goals.

"Free" is a hoary buzzword, and it gains even greater meaning when coupled with "instant gratification," a shibboleth of more recent coinage. The combination wins the top vote of the surveyed executives for achieving five of the nine objectives listed in the questionnaire.

There is nothing like the direct premium, many say, to obtain store displays, increase ad readership, sample new users, build good will among older users and provide a talking point for the sales force.

The factory-pack premiums, versions of the direct offer, earn the top awards for stimulating sell-in to dealers and getting shelf attention. The coupon plan takes the lead in its traditional specialty of repeat purchases, and the self-liquidator continues to have a clear advantage in overall cost-effectiveness.

Selecting methods and specific premiums to fit the need at hand is often a complex matter involving many people within a company. But the buck has to stop somewhere, and the users tell us the final decision on consumer premium purchases rests with top management (president, chief executive officer, executive vice president, general manager) in 62 percent of cases.

A director of sales or marketing has the last word 21 percent of the time. In only 8 percent of the companies the decisions are made by a director of advertising or sales promotion, and a product manager or merchandising manager is the prime mover 7 percent of the time.

Whoever makes the final decisions, however, the buying plans among this survey group look favorable considering the low inflation rates projected for this year. And, as the direction of the economy made the survey estimates look too rosy a year ago, it seems likely that a rising business curve this year may make preliminary estimates of an 8.7 percent gain look conservative. ■